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DIRECTORATE OF  
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SECRET

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# *Central Intelligence Bulletin*

## CONTENTS

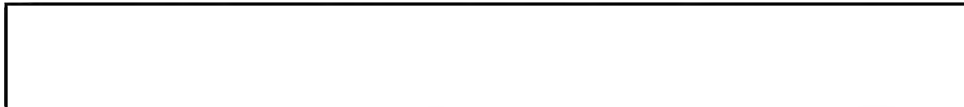
LAOS: Long Tieng situation unchanged but Communists maintain pressure along Route 13. (Page 1)

VIETNAM: Viet Cong statement is designed to counter advantage gained by US through disclosure of secret talks. (Page 2)

COMMUNIST CHINA - PAKISTAN: Assessment of Bhutto's visit to Peking. (Page 4)

COMMUNIST CHINA - LAOS: Further improvements in road network. (Page 7)

PANAMA: Torrijos government is using international forums to focus attention on canal issue. (Page 8)



25X6

ITALY: Premier Colombo fails to form new government. (Page 11)

INTERNATIONAL MONETARY SITUATION: European currencies rise sharply against the dollar. (Page 13)

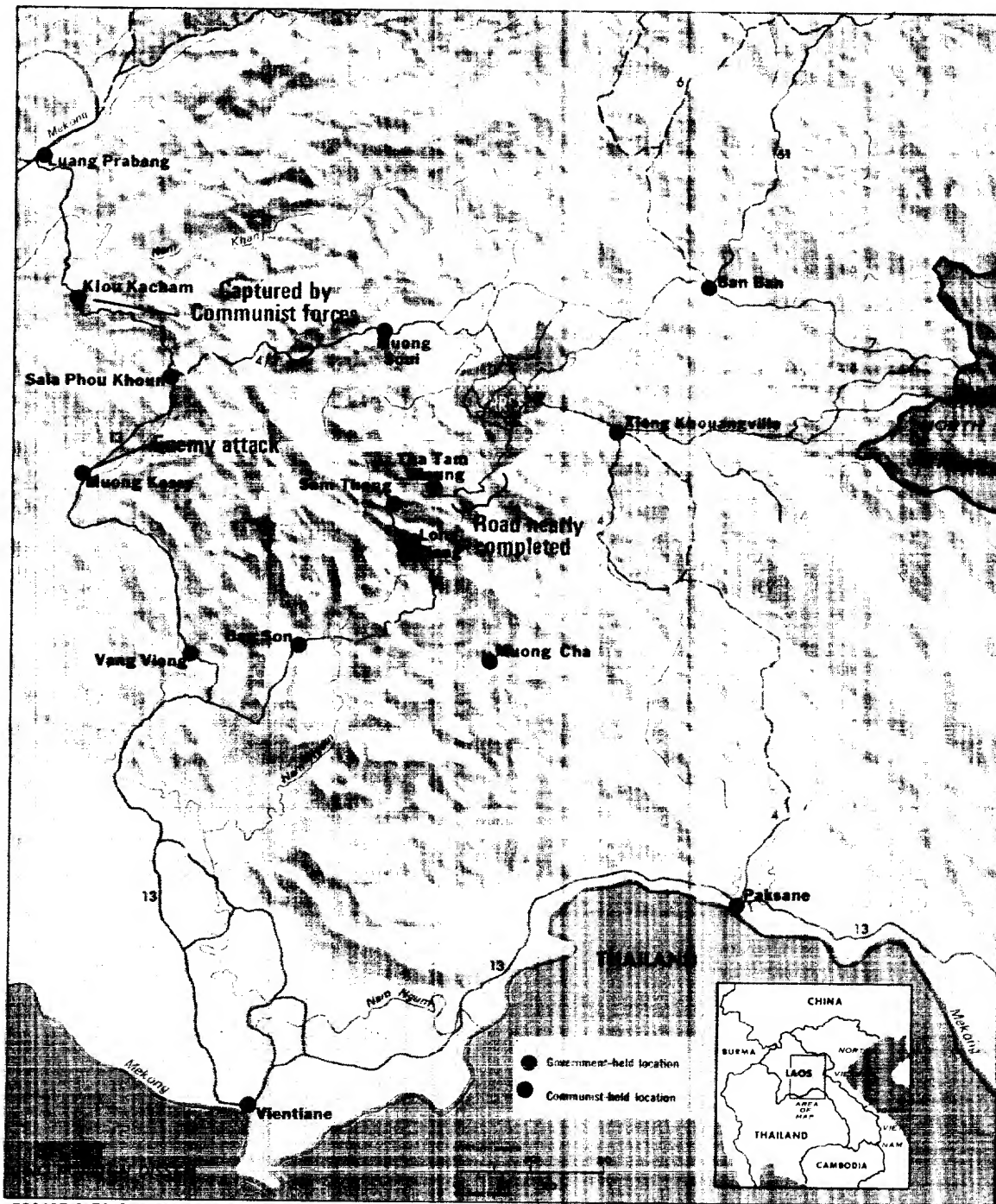
JAMAICA: Prospects for close election race. (Page 14)

CUBA-BAHAMAS: Cuban visit (Page 16)

NEW ZEALAND: New prime minister (Page 16)

SECRET

SECRET



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SECRET

SECRET

**C** LAOS: Military activity has remained light in the Long Tieng area, but Communist forces are keeping up the pressure on government units along Route 13.

In the Long Tieng area probes and shelling attacks continue daily, but no positions have changed hands in the last several days. US pilots reported on 31 January that the new road from the southwestern Plaine toward the Tha Tam Bleung area is about 80 percent completed.

To the west of Long Tieng, Pathet Lao and dissident Neutralist forces are pressing along Route 13 both north and south of Sala Phou Khoun. On 31 January they overran Kiou Kacham, between Sala Phou Khoun and Luang Prabang, and they are harassing Lao Army positions around Muong Kassy. Lao Army units so far have put up little resistance to Communist troops considered less able than the main force North Vietnamese units fighting around Long Tieng.

The Communist forces are being largely supplied along Route 7 from Muong Soui, and this extended supply line will hinder their ability to follow up their recent gains. On the other hand, their successes may encourage them to continue pressuring government troops in the hope of alarming Vientiane and forcing the government to divert some of its better forces from the Long Tieng area to Route 13.

25X1

3 Feb 72

Central Intelligence Bulletin

1

SECRET

SECRET

VIETNAM: Viet Cong representatives have issued a statement "elaborating" on their seven-point proposal in a manner designed to counter the advantage gained by the US through disclosure of the secret negotiations.

The Viet Cong statement, issued at a press conference in Hanoi yesterday, partially modifies some of the key elements in the seven points, particularly with regard to a political solution. According to the statement, the Communists' Provisional Revolutionary Government would discuss arrangements for a caretaker regime and new elections with the "Saigon administration," once President Thieu has resigned and other, more general demands have been met, including the freeing of political prisoners and the ending of pacification. Previously the Communists have pressed for the immediate, total elimination of the Saigon regime, stating that they would be willing to deal only with forces "favoring peace and national concord" in setting up a transitional administration to prepare for elections.

In elaborating on their previous position, the Communists may be trying to offset US charges that they are insisting that a Communist government be formed in South Vietnam. They may also believe that by posing Thieu as the principal obstacle to a settlement they will strike a responsive chord among critics of US policy and undermine Vietnamese morale and confidence in Thieu's administration.

The statement fails to include the standard Vietnamese Communist calls for an end to all US political support and backing for the Saigon regime, as was contained in the Communists' seven-point proposal. The statement fuzzes the issue by contending only that the US must end its "interference" in the internal affairs of South Vietnam. On the issue of the withdrawal of US military forces and arms,

3 Feb 72

Central Intelligence Bulletin

2

SECRET

SECRET

it reinforces past Communist demands, specifying that the US must set a terminal date for all US air, ground, and naval action in both North and South Vietnam, and that the withdrawal of US forces and arms must be unconditional.

In place of a return of US prisoners paced to the US withdrawal, the Viet Cong statement indicates that the prisoners will not be returned prior to the end of the US withdrawal. Unlike most formulations of the past few months, the statement fails to state that the demands for US military withdrawal and implementation of a political settlement are "closely linked," although it does say that agreement on the two issues will make it "easy" to resolve the other problems in a settlement. The issue of a cease-fire is also omitted in the statement, suggesting either that the Communists intend to preserve some flexibility on this subject or that their position has not changed since the appearance of the seven points.

25X1

3 Feb 72

*Central Intelligence Bulletin*

3

SECRET

SECRET

COMMUNIST CHINA - PAKISTAN: President Bhutto has left Peking with only tepid pledges of Chinese support and with the evident understanding that Peking is reserving its freedom of maneuver regarding Bangladesh.

The joint communiqué issued on 2 February marking the end of Bhutto's visit contains a plea by the Pakistani president that all states refrain from taking any precipitous action--i.e., by recognizing Bangladesh--that would "legitimize Indian aggression." The communiqué also records, however, that Premier Chou En-lai's response to this plea was limited to expressing his understanding and respect for Pakistan's stand.

The communiqué also suggests that Peking is not now interested in extending any significant new economic assistance to Pakistan. The Chinese only agreed to convert into grants their four previous loans and to defer for 20 years payment on the 1970 loan of \$200 million. Peking vaguely promised to provide Islamabad with fresh loans "on similar terms" but only after the 1970 loan has been utilized.

The communiqué reflected Peking's earlier decision not to increase the level of its political support for Pakistan. Both sides joined in condemning Indian aggression, called upon India to withdraw its troops from occupied territory, and pressed New Delhi to fulfill its Geneva Convention obligations for the safety of Pakistani prisoners of war, but the language was non-polemical and does not represent an intensification of earlier Chinese propaganda attacks on India.

The Chinese, who appeared reluctant to play host to President Bhutto at this time, probably accommodated the Pakistani president in order to bolster his political position at home and to maintain moderate pressure on India to reach an

3 Feb 72

*Central Intelligence Bulletin*

4

SECRET



SECRET

accommodation with him. Islamabad was warned long ago, however, that Peking meant to improve its relations with India, a goal that probably has assumed greater importance in view of India's new pre-eminence in the subcontinent and Pakistan's fading usefulness to China as a bulwark against increased Soviet influence in the region. The Chou-Bhutto communiqué will not hinder this policy and offers further evidence that Peking is loosening its "special relationship" with Islamabad.

25X1

3 Feb 72

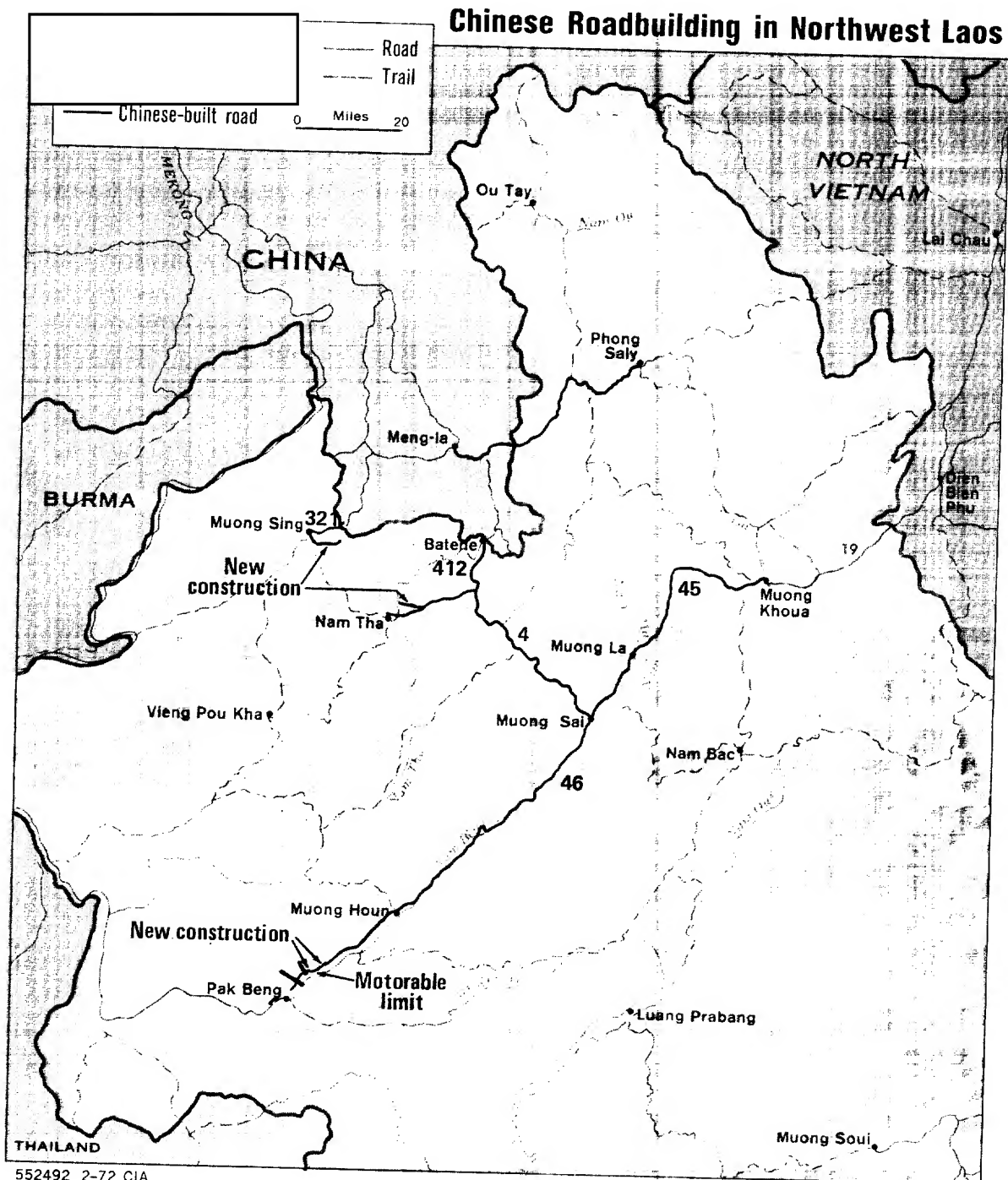
*Central Intelligence Bulletin*

5

SECRET

SECRET

25X1



SECRET

SECRET

COMMUNIST CHINA - LAOS: The Chinese are continuing to improve their road network in northern Laos.

A comparison of photography of 4 December and late January shows two miles of additional road construction and improvements southwest from Muong Houn toward Pak Beng on the Mekong River. The road is now completely motorable to within seven miles of Pak Beng. Although difficult terrain complicates construction, the road still could reach the Mekong by the end of the current dry season.

To the northeast, sections of Route 45 are still being upgraded from Muong Sai to Muong Khoua at the Nam Ou River. There is still no sign of a permanent river crossing to connect with Route 19 from North Vietnam, but a makeshift ferry was seen on the west bank of the Nam Ou. To the northwest, Route 321 from the China border is being widened and straightened to Muong Sing. From Muong Sing, a road is being constructed to a point five miles southeast of town. The Chinese may plan eventually to connect this road with a lateral spur road under construction westward off of Route 412. The spur road has recently been extended several miles north along the Nam Tha River. A bridge is under construction there and is defended by five anti-aircraft positions.



3 Feb 72

Central Intelligence Bulletin

7

SECRET

SECRET

PANAMA: The Torrijos government has begun using international forums to focus world attention on the canal issue.

At the Security Council meeting in Addis Ababa, the Panamanian ambassador to the UN devoted the bulk of his speech to Panama's struggle against "US neo-colonialism in the Canal Zone." The ambassador earlier stressed the canal issue in his only other formal statement following Panama's election to the Security Council. [ The Panamanian ambassador has indicated that Panama may soon formally bring the Canal issue before the Security Council. He warned that if the US should veto this initiative he would seek a General Assembly resolution in support of Panama's negotiating position. ]

Panama also has used a meeting of the OAS Inter-American Council for Education, Science and Culture to make some propaganda points at US expense. The minister of education described the Canal Zone as a colonial enclave and stressed that Panama was engaged in a struggle to "eliminate all jurisdictional limitations within its territory."

Panama apparently believes that if it can sufficiently embarrass and harass the US at international meetings, the US will be compelled to make further concessions on the canal negotiations. Recent Cuban-Soviet pronouncements probably have reassured Torrijos of diplomatic and propaganda support from Communist states and he seems to be concentrating on gaining third world support. This would explain the government's attempt to portray the canal negotiations as part of the world-wide struggle against colonialism.

25X1

3 Feb 72

Central Intelligence Bulletin

8

SECRET

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SECRET

ITALY: Growing political and economic uncertainties underlie Premier Colombo's failure to form a new government.

The continuing economic slowdown and above all the problem of how to deal with the referendum on divorce scheduled for this spring made it impossible for Colombo to achieve consensus among the four parties of the center-left or even within his own factionalized Christian Democratic Party.

President Leone may now ask another Christian Democratic leader to try to form a government, or he may ask Colombo to head a caretaker government that would prepare for general elections this spring, one year ahead of schedule. One of the attractions of early elections is that they would automatically postpone the referendum for at least a year. On the other hand, conservative Christian Democrats say the referendum should be held prior to general elections, believing that a campaign against the divorce law would strengthen the Christian Democratic Party against expected neo-fascist gains, a major party preoccupation in recent months.

Center-left political leaders would have an additional reason for early elections, if, as is probable, they judge that the economy will not pick up substantially this year. Italy's official economic planning institute has forecast that "in the best of events" national income will rise only two to 2.5 percent this year, compared with the average of almost six percent during the 1960s. Considerable spare capacity in industry, sluggish export demand, and a poor psychological climate in the business community all argue against a strong revival of private investment, which was the weakest link in the economy last year.

Government promises to increase investment spending substantially are generally viewed with

3 Feb 72

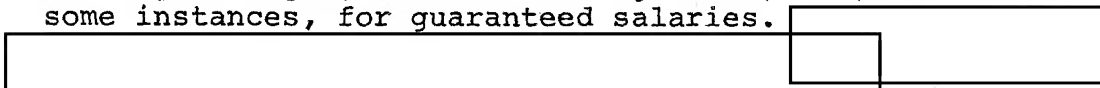
*Central Intelligence Bulletin*

11

SECRET

SECRET

skepticism. Moreover, despite a management-labor leadership dialogue, a militant union stance this year may evolve from a general strike for social reform scheduled for six cities this week. There are also indications of a strong joint union platform in contract renegotiations affecting over four million workers this year. The unions will call for higher wages, reduced working hours, and, in some instances, for guaranteed salaries.



25X1

25X1

3 Feb 72

*Central Intelligence Bulletin*

12

SECRET

SECRET

INTERNATIONAL MONETARY SITUATION: Major European currencies rose sharply against the dollar yesterday, triggered in part by a statement made by a high-ranking West German central banker that the US balance-of-payments deficit, excluding short-term capital flows, is not likely to improve appreciably until 1973.

A growing demand for marks forced the West German Bundesbank to intervene in the exchange market in support of the dollar in a substantial way for the first time since the realignment in December. Moreover, because the exchange values of both the Belgian franc and the Dutch guilder are close to their upper limits, the central banks of these two countries may also be obliged to support the dollar very soon.

European bankers seemingly do not expect the dollar to improve until an increase in the price of monetary gold appears certain, so that the viability of the currency realignment can be tested realistically. Should foreign central banks be faced with persistent upward movements of their currencies against the dollar, there is a growing risk that they could be forced either to resume currency floats or to reinstitute stricter capital controls rather than absorb new, large amounts of non-convertible dollars.

25X1

3 Feb, 72

Central Intelligence Bulletin

13

SECRET



SECRET

JAMAICA: The general election scheduled for 29 February is shaping up as a very close race.

Jamaica has a strong, democratic two-party system. Thus far neither the ruling Jamaica Labor Party (JLP) led by Prime Minister Hugh Shearer nor the opposition People's National Party (PNP) headed by Michael Manley has been able to seize a significant advantage during the seesaw campaign because the election lacks clearly defined or popular issues. The government has been moderately successful in reducing crime, primarily through beefed-up police and military patrols. Unemployment, another persistent problem, has been declining recently and is not likely to be a campaign issue.

The absence of an issue, however, has not prevented Shearer from boasting of the JLP's past accomplishments and future plans. Experience in office as well as Shearer's pragmatic approach to politics will be natural assets to the incumbents.

The administration's over-all good record, however, has been marred by hints of scandal and press criticism of corruption in the cabinet. A serious rift within the party leadership has become general public knowledge, and it has reportedly led Minister of Finance and Planning Seaga--the campaign manager--to threaten to refuse to help in the election. Seaga's failure to campaign for Shearer could make the difference between victory and defeat for the JLP.

The PNP has attempted to capitalize on these deficiencies. The main thrust of its campaign, however, is centered on the "need" for a change after more than nine years. Manley is also basing his hopes on his party's new orange campaign color, catchy tunes with politically oriented lyrics, and his conviction that the people want a new government.

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3 Feb 72

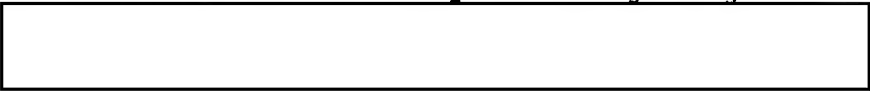
Central Intelligence Bulletin

14

SECRET

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Both parties have pledged non-violence during the campaign, but a few incidents have taken place and others are likely. Jamaican security forces, however, should be able to control the situation. Regardless of the outcome, the country's domestic and foreign policies are unlikely to change significantly.



25X1

3 Feb 72

*Central Intelligence Bulletin*

15

SECRET

SECRET

## NOTES

CUBA-BAHAMAS: A Cuban delegation is in Nassau for the stated purpose of discussing Cuba's claim to traditional fishing rights in Bahamian waters. The composition of the delegation, [REDACTED]

[REDACTED] suggests that the Cubans also may want to discuss the possibility of closer relations. Cuba has been gradually expanding its contacts with other nations in Latin America, and has directed considerable effort toward European possessions in the Caribbean. The French territories have responded favorably, but Bahamian authorities probably do not favor any significant expansion of ties with Cuba. [REDACTED]

\* \* \* \*

NEW ZEALAND: The new prime minister, John Marshall, plans to announce his cabinet next week, but no significant policy changes are likely in the National Party government. Sir Keith Holyoake, who retired yesterday after eleven and a half years as prime minister, had been considering leaving his post for some time. He chose an election year, presumably in the belief that a new leader would help the government in what is likely to be another close contest with the opposition Labor Party. Marshall has served concurrently as deputy prime minister, minister of overseas trade and minister of labor. He has earned good marks from both his party and the nation for safeguarding New Zealand's trade interests in negotiations last year on UK entry into the European Communities. [REDACTED]

3 Feb 72

Central Intelligence Bulletin

16

SECRET

**Secret**

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